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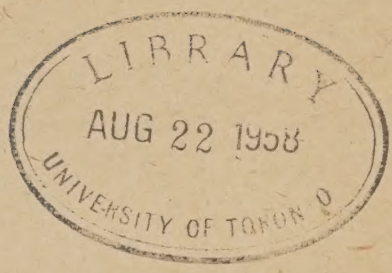


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Ontario Hydro-Electric
Inquiry Commission
1922-1924

234

Miscellaneous documents



OCTOBER 24th, 1922.
I N T E R V I E W
WITH
MR. G. T. CLARKSON
re
CENTRAL ONTARIO SYSTEM.

J. A. ROSS.

OCTOBER 24th. 1922.

INTERVIEW

Q. Now, I do not know the reason for the purchase, Mr. Loney. It was with and whatever the reason was I did not inquire. I did not consider that

with

MR. G. T. CLARKSON

and

MR. H. E. GUILFOYLE

20

CENTRAL ONTARIO SYSTEM.

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I N T E R V I E W
with
Messrs. Clarkson and Guilfoyle.
re
CENTRAL ONTARIO SYSTEM.
October 24th, 1922.

Mr. Clarkson: The Central Ontario System was purchased by the Government before we became the auditors of the Hydro.

Chairman: 1916, was it not ?

Mr. Clarkson: 1916, I think. It was purchased in March, 1916 and the Order-in-Council was in May, 1916. We were appointed in March.

Chairman: Why was it purchased:

Mr. Clarkson: I know nothing about that. I fancy that Strachan Johnston, Howard Ferguson of, possibly, Mr. McGarry, might tell you something about it.

Mr. Haney: Or Cochrane ?

The purchase was made to adjust the water rates between the Federal Government and the Provincial Government.

Mr. Clarkson: I do not know the reason for the purchase, Mr. Haney. It was effected and whatever the reason was I did not inquire. I did not consider that it concerned me very much, particularly at that time. All I was asked to do was to go in and audit the accounts and we started in then to audit them and it took us (I mean the accounts of the Hydro-Electric Commission) I know nothing of the negotiations. The only thing I have heard respecting the purchase was that, from time to time, Sir Adam recommended forty-year four-per-cent bonds and the Government purchased ten-year four-per-cent bonds.

Chairman: We were told that they threw in the Nipissing System as a consideration for making it ten years instead of forty.

Mr. Clarkson: That may be but I was not concerned in the negotiations. I do not know what led up to them and I considered it outside my Province at that time; I was not auditor at that time. In 1917 they made many changes in the Act. The System was purchased for \$8,350,000 of ten-year four-per-cent bonds.

R. A. Ross: Have you any idea what they did with these bonds ?

EXHIBIT A

with

General. Discharge and Discharge

is

GENERAL CHIEF OF THE

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The General Chief of the State was purchased by the Government before we became the advisors of the State.

Mr. Discharge

1910, was it not?

Mr. Discharge

1910, I think. It was purchased in March, 1910, and the other-in-charge was in May, 1910. We were appointed in March.

Mr. Discharge

Why was it purchased?

Mr. Discharge

I know nothing about that. I know that the Government, however, perhaps, Mr. Discharge, might tell you something about it.

Mr. Discharge

Or perhaps?

Mr. Discharge

The purchase was made to assist the water rate between the Federal Government and the Provincial Government.

Mr. Discharge

I do not know the reason for the purchase, Mr. Discharge. It was intended and whatever the reason was I did not inquire. I did not consider that it concerned me very much, particularly at that time. All I was asked to do was to go in and assist the committee and we started in that to assist them and it took up a great deal of the money of the Hydro-Electric Commission. I know nothing of the negotiations. The only thing I have heard regarding the purchase was that from time to time, the Government purchased four-year-old boats and the Government purchased four-year-old boats.

Mr. Discharge

He was told that they were in the Hydro-Electric Commission as a consideration for making it for years instead of forty.

Mr. Discharge

That was the fact I was not concerned in the negotiations. I do not know what led up to them and I mentioned outside my knowledge at that time. I was not asked at that time. In fact, they made many changes in the fact. The system was purchased for \$2,500,000 of four-year-old boats.

Mr. Foster: The North-Western Mutual in the States owned some and the Order of Foresters owned half a million.

Mr. Clarkson: The Sun Life had some. I do not know what they did with them.

Mr. Haney: At one time it was reported that they had sold a block in Philadelphia.

Mr. Harris: They did sell some but not all. Strachan Johnston says they sold quite a block but not all. I cannot understand why they should sell them.

Mr. Clarkson: No; except that they could get a higher rate of interest.

Mr. Harris: The whole issue that the Sun Life held was, I think, \$9,000,000. and they bought them at 85.

Mr. Clarkson: They took \$8,350,000 of four-per-cent bonds at par.

I do not know whether money was at four per cent then or not.

No, in 1916 it was at 5%.

Mr. Harris: They paid Strachan Johnston, for instance, in bonds. He did not get cash.

Mr. Clarkson: They bought these bonds for \$7,650,000. They got \$8,350,000. There may have been some interest on those Seymour bonds.

Mr. Harris: I do not think so. I think the interest was all paid up to date.

Chairman: I do not understand why the Sun Life - an investing Company - ever lent so much on that property.

Mr. Clarkson: I suppose they had better answer for themselves as to why they did that; I do not know.

Mr. Harris: They probably got a big bonus of common stock, which, of course, was worth it.

Mr. Clarkson: When we got in there this undertaking had been purchased and the Hydro was put in charge of it for the Government. I think, at the time, there were some differences between Sir Adam and some members of the Government and that is why the Government took the property over in its own name and let the Hydro operate it.

What were the differences?

Mr. Clarkson: I do not know that.

Mr. Foster: The North-Western Mutual in the States owned some and the Order of Foresters owned half a million.

Mr. Clarkson: The Sun Life had some. I do not know what they did with them.

Mr. Harvey: At one time it was reported that they had sold a block in Philadelphia.

Mr. Harris: They did sell some but not all. Stephen Johnston says they sold quite a block but not all. I cannot understand why they should sell them.

Mr. Clarkson: Not except that they would get a higher rate of interest.

Mr. Harris: The whole issue that the Sun Life held was, I think, \$2,000,000, and they bought them at \$2.

Mr. Clarkson: They took \$2,350,000 of four-per-cent bonds at par. I do not know whether money was at four per cent then or not.

Mr. Harris: No, in 1916 it was at \$2.

Mr. Harris: They paid Stephen Johnston, for instance, in bonds. We did not cash.

Mr. Clarkson: They bought these bonds for \$7,500,000. They got \$8,250,000. There may have been some interest on those payment bonds.

Mr. Harris: I do not think so. I think the interest was all paid up to date.

Chairman: I do not understand why the Sun Life - an investing company - ever lent so much on that property.

Mr. Clarkson: I suppose they had better answer for themselves as to why they did that. I do not know.

Mr. Harris: They probably got a big bonus of common stock, which, of course, was worth it.

Mr. Clarkson: Then we got in there this undertaking had been purchased and the Hydro was put in charge of it for the Government. I think, at the time, there were some differences between Mr. Adam and some members of the Government and that is why the Government took the property over in its own name and let the Hydro operate it.

What were the differences?

--- The only way they could take it over was by the municipalities coming in.

--- Yes, they put it on a Hydro-municipal basis.

--- And, if they had to buy pulp mills, etc., they could not have operated on that basis.

Mr. Harris: Well, the story is that Beck wanted to get the power from the Trent Valley for the Hydro. We heard some of those chaps the other day say that they went to Ottawa to get the Government to take all these powers over from private interests and not to lease any other powers and I think that was all framed up at Hydro headquarters so as to create sentiment in favor of the Hydro and Beck thought he could get all these plants into the Hydro-municipal enterprise, but he could not put it over. He went to Ottawa and made such a fight to get possession of these water powers that the Seymour Power Co. got alarmed. They thought, when they went into it, that they were going to be let alone, but they were not and they were advised, from the Government, to sell out and they thought they would get into trouble if they did not sell out, so they decided to sell if they could get their price. Then, what happened was that Frank Cochrane told Strachan Johnston "You had better sell out". Johnston said "What is the price?" Cochrane said it would have to be arbitrated. Johnston said he did not know if his people would agree to arbitration. Cochrane suggested that they leave the matter in his hands to appoint one arbitrator. Johnston said he did not know who the arbitrator would be and Cochrane said he would fix that all right. Johnston took it up with his people and, after agreement, Drayton was appointed. Johnston raised the question that, whatever was the award of the arbitrator it would be accepted and Beck got up and said no, he would insist on obtaining the property at proper costs and then the arbitration blew up. After a lot of conferences they arrived at this price and the deal was closed.

Mr. Clarkson: You see, Mr. Harris, I had never had anything to do with that and I did not consider it my business and it took me a year or fifteen months before I got my hand in but I remember that, one time, Mr. McGarry said that the Sun Life was a strong power in the financial world and that the way things were going down there the Seymour Company might be wrecked through the interference of the Hydro and it might be advisable to buy them out. That is the only expression of opinion I ever got from any minister.

Chairman: Did you go over that inventory?

The only way they could take it over was by the
municipalities coming in.

Yes, they put it on a Hydro-municipal basis.

And, as they had to buy back mills, etc., they
could not have operated on that basis.

Mr. Harris:

Well, the story is that back wanted to get the
power from the Trust. They got the Hydro. We
heard some of these things the other day but they
they went to Ottawa to get the Government to take
all these powers over from private interests and
not to leave any other powers and I think that
was all framed up at Hydro headquarters so as to
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thought he could get all these powers into the
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ment got alarmed. They thought, when they
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but they were not and they were advised, from the
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get into trouble if they did not sell out, so they
decided to sell it. They could not get their prices.
Then what happened was that Frank Buchanan told Buchanan
Johnson "You are a better sell out". Buchanan said
"What is the price?" Buchanan said it would have
to be restricted. Buchanan said he did not know
if his people would agree to restriction. Buchanan
suggested that they have the matter in his hands to
appoint one arbitrator. Buchanan said he did not
know who the arbitrator would be and Buchanan said
he would fix that all right. Johnson took it up
with his people and, after agreement, they were
appointed. Johnson raised the question that
whoever was the award of the arbitrator it would be
accepted and back got up and said no, he would
insist on obtaining the property at proper costs
and then the arbitration blew up. After a lot of
confusion they arrived at this price and the deal
was closed.

Mr. Dickson:

For me, Mr. Harris, I had never had anything to
do with that and I did not consider it my business
and it took me a year or fifteen months before I got
my hands in but I remember that, one time, Mr. Mackay
told me that the life was a strong power in the
financial world and that the way things were going
down there the Government might be weakened
through the interference of the Hydro and it might
be advisable to say them out. That is the only
expression of opinion I ever got from any minister.

Did you go over that inventory?

Chairman:

Mr. Clarkson: At the time that was taken over there was a statement given to us by the Hydro engineers indicating the value attached to the physical properties and also the value attached to the intangible rights. My recollection is that we got that statement from them for two reasons; first, we wanted to apportion the purchase price on the books and second, my recollection is that McGarry asked me for it.

R. A. Ross: You would have to do it anyhow.

Mr. Clarkson: Although there was nothing at that time to compel the Commission to apportion the losses on that system, nevertheless it was done.

R. A. Ross: If they had not done it, they would not know today what that system was worth.

Mr. Clarkson: No, and they would not have known whether they were making money or losing money.

Mr. Guilfoyle: My recollection was that the report on the physical values was made in 1914.

Mr. Clarkson: The situation was this; When we came in \$8,350,000 had been paid in bonds for the purchase of this system. We got this valuation \$5,000,000 of physical and \$3,350,000 in intangible, which was spread against that \$8,350,000. In that way we got the cost of every element in the System.

Mr. Harris: That valuation could not have been made in 1914.

Mr. Guilfoyle: The engineers informed me, Mr. Harris, that it was made in 1914 and 15. It would probably only mean one year and a half.

R. A. Ross: They made the expenditure and were trying to recoup themselves.

Mr. Guilfoyle: And there were not the big estimates for the load.

Mr. Clarkson: That was about 1918, Guilfoyle, when ~~they~~ did they we first preparing statements?

Mr. Guilfoyle: We prepared them, after a fashion, in 1916 but we did not know until 1918 until the loop was built connecting the generating plants in the Trent System The engineers informed us that they could not give anything like a sound basis for distribution. That was done in 1918 and I know that in 1919, 1920 and 1921 the distribution of these costs was only on the estimated rates for power, made up by the Commission's engineers to the local distributing systems.

Mr. Blackman:

At the time that was taken over there was a statement given to us by the Hydro engineers indicating the value attached to the physical properties and also the value attached to the intangible rights. My recollection is that we got that statement from them for two reasons: first, we wanted to question the purchase price on the books and second, my recollection is that Rogers asked me for it.

E. A. Ross:

You would have to do it again.

Mr. Blackman:

Although there was nothing at that time to compel the Commission to question the books on that system, nevertheless it was done.

E. A. Ross:

If they had not done it, they would not have found what that system was worth.

Mr. Blackman:

Yes, and they would not have known whether they were making money or losing money.

Mr. Gallegos:

My recollection was that the report on the physical values was made in 1914.

Mr. Blackman:

The statement was that: When we came in 1914, 1915, 1916 had been paid in bonds for the purchase of this system. We had this valuation \$2,000,000 of physical and \$2,000,000 in intangible, which was spread against that \$2,000,000 in their way to get the cost of every element in the system.

Mr. Harris:

That valuation could not have been made in 1914.

Mr. Gallegos:

The engineers informed me, Mr. Harris, that it was made in 1914 and 1915. It would probably only mean one year and a half.

E. A. Ross:

They made the expenditures and were trying to recoup themselves.

Mr. Gallegos:

And there were not the big estimates for the load.

Mr. Blackman:

That was about 1916, Gallegos, when they were in the first preliminary statement.

Mr. Gallegos:

We prepared them, after a fashion, in 1914 but we did not know until 1918 until the load was well connected the generating plants in the Trent system. The engineers informed us that they could not give anything like a second basis for distribution. That was done in 1918 and I know that in 1918, 1919 and 1920 the distribution of these costs was only on the estimated basis for power, made up by the Commission's estimate to the local distribution system.

R.A. Ross: So the idea of power at cost did not come into the question.

Mr. Clarkson: After October 1st, 1917, after putting up \$_____ for _____ there was a loss of \$_____ after paying interest. There is another phase in this situation too, the Government owns this system. We have always carried the interest which the Government paid as an operating cost. We charged them interest on the whole investment, as operating cost. The amount was paid to the Government and after setting up \$_____ for renewals, there is nothing to require a sinking fund. There is no room for a sinking fund.

Mr. Harris: Why not ?

R. A. Ross: Has a Government got sinking funds for its issues ?

Mr. Clarkson: I understand that, about two years ago, there was some arrangement made for the establishment of sinking funds. Prior to that I do not understand that there were any provisions for sinking funds. In this case the Government has made an investment of \$8,350,000; the Government owns the system. If the earnings from the system had been sufficient to more than pay the interest, then any surplus could be set up to gradually amortize the capital that the Government put into the System.

J. A. Ross: Why should not the earnings be put in such a position as to establish a fund to amortize the plant.

R. A. Ross: The Hydro said "Here, the union of municipalities ~~are~~ as partners are entitled to their savings. Their savings belong to them and are deferred dividends." In the case of the Government there is no one to give it to. They would just be charging the people so much more in order to put it in their own pockets. They have been talking "Cost" and they would not be doing that at all; they would be making a profit.

Mr. Clarkson: _____ a means of the municipalities buying the capital interest which the Government has in ~~this~~ this system.

Mr. Harris: The Government buys this and turns it over to the Hydro to operate.

Mr. Clarkson: When the Government bought this system, it bought the generating plants and the main transmission lines and the local utilities. The local utilities are owned by the municipalities.

Mr. Harris: That is quite so and why should the Government buy the Central Ontario System and handle it in this way and handle the other systems in different ways.

to the idea of power of some kind some time ago.

Mr. Rosen:

Mr. Blackman:

After October 1st, 1917, after getting up a plan there was a loan of \$100,000,000. There is another phase after paying interest. There is another phase in this situation too. The Government owns this system. We have always carried the interest which the Government paid as an operating cost. To charge them interest on the whole investment, as operating cost. The amount was paid to the Government and after waiting up to \$100,000,000, there is no more to be paid. There is no more to be paid.

Why not?

Mr. Nathan:

Has a Government got sinking funds for its issues?

Mr. Rosen:

Mr. Blackman:

I understand that, about two years ago, there was some arrangement made for the establishment of sinking funds. Prior to that I do not understand that there were any provisions for sinking funds. In this case the Government has made an investment of \$100,000,000; the Government owns the system. If the earnings from the system had been sufficient to pay the interest, then any surplus would be set up to gradually amortize the capital cost of the Government and into the system.

Why should not the earnings be put in such a position as to establish a fund to amortize the plant?

Mr. Rosen:

Mr. Rosen:

The Hydro said "There, the matter of monopolization was as serious as entitled to their earnings. Their earnings belong to them and are deferred dividends." In the case of the Government there is no one to give it to. They would just be charging the people as much more in order to put it in their own pockets. They have been taking "loans" and they would not be doing that at all; they would be making a profit.

Mr. Blackman:

A means of the monopolist paying the capital interest which the Government has in them this system.

Mr. Nathan:

The Government pays this and there is over to the Hydro to operate.

Mr. Blackman:

When the Government borrows this system, it borrows the generating plants and the main transmission lines and the local utilities. The local utilities are owned by the municipalities.

Mr. Nathan:

That is quite so and why should the Government pay the local utilities and not the Hydro?

The least they should have done is to provide for the intangible and depreciation, because they have an inflated value there, because of the depreciation and intangible values not being taken care of. It appears to me that the least they should do is to take care of that, because if they want to turn the plant over at any time, they cannot do so at the price paid for it, because they paid too much.

R.A. Ross: Have these intangibles any value ?

J. A. Ross: The intangibles have a value in franchises and good will.

Chairman: If the people contribute to a sinking fund in the Niagara System, they get it back. Meanwhile, in the Central Ontario System, they would pay it off and leave the Government with an unencumbered property but they might get a reduced rate,

Mr. Clarkson: The whole Hydro system is on an entirely arbitrary basis.

Mr. Harris: Yes, on a basis which includes the repayment of the capital expenditure.

Mr. Clarkson: Yes, but they must pay cost and interest. The Central Ontario System was just handed over whole to the Commission, to operate for the Government, without any restrictions.

Mr. Guilfoyle: The Central Ontario System Power Act said that the Government would purchase that System and the Act gave the Province the power to fix vest the operation and management in another body or person - without mentioning who it was - .

Mr. Harris: Would you not think that the Hydro would operate that System on the same lines exactly as the other systems ?

Mr. Guilfoyle: They had to assume power contracts that are today losing contracts. I have heard it said that the old system, just prior to 1916, did not make enough to pay the Sun Life interest - let alone sinking funds - that, of course, is just hearsay.

Chairman: It is strange to think that they would have entered into the purchase expecting it to become a burden on the Province.

Mr. Latimer: There were deficits for two years prior to the purchase - \$150,000 in 1912 and \$100,000 in 1913.

Mr. Clarkson: I have pointed out to the Commission that there was no glory or profit in it for them. I said "You are taking all the risks. If you ever make profits, the

The fact they should have done is to provide for the installation and depreciation, because they have an installed value there, because of the depreciation and installation value not being taken care of. It is a point to me that the fact they should do is to take care of that, because if they want to turn the plant over at any time, they cannot do so at the value paid for it, because they paid the cash.

Have these installations any value?

The installations have a value in themselves and good will.

If the people contributed to a sinking fund in the Niagara system, they get it back. Meanwhile, in the Central Ontario system, they would pay it off and leave the Government with an unimpaired property but they might get a reduced rate.

The whole Hydro system is an entirely arbitrary basis.

Yes, on a basis which involves the repayment of the capital expenditure.

Yes, but they must pay cost and interest. The Central Ontario system was just handed over before the Commission, to operate for the Government without any restrictions.

The Central Ontario system power act said that the Government would purchase that system and the act gave the Province the power to run the operation and management in another body or person - without mentioning who it was - .

Would you not think that the Hydro would operate that system on the same lines exactly as the other system?

They had to assume power contracts that are today losing contracts. I have heard it said that the old system, just prior to 1910, did not make enough to pay the full life interest - let alone sinking funds that, of course, is just history.

It is strange to think that they would have entered into the purchase expecting it to become a burden on the Province.

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I have pointed out to the Commission that there was no glory or profit in it for them. I said they were

Mr. A. Ross:

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Chairman:

Mr. Clarkson:

Mr. Harris:

Mr. Clarkson:

Mr. Gulliford:

Mr. Harris:

Mr. Gulliford:

Chairman:

Mr. Latham:

Mr. Clarkson:

municipalities will want them in the shape of reduced rates. There is no glory in it. The Province takes all the risk if there is a loss and, if there are substantial profits, the municipalities will ask for reduced rates. So I said to them "Why not get something going and get the municipalities to take it over?"

R. A. Ross: It is only now that they know how it could be taken over; that they could say to each town "You should pay so much."

Mrs. Guilfoyle: Several reasons, Mr. Ross. Until 1918, they could not allocate costs. Another thing; I understand from Mr. Gaby that these franchises are actually petering out and I know that, from 1916 forward, they have been trying to get it on a Hydro-municipal basis.

Mr. Clarkson: The theory I have always had is this "If I were a municipality, why the devil would I want to bother about it?"

Chairman: Oshawa said they were paying the cost themselves and were helping to make up the deficit on the Peterboro Street Railway.

Mr. Clarkson: And in any adjustment you would not be able to leave the Government with all the "sick horses"; there would only be one basis that you take every element at its individual value. The Peterboro Street Railway is down for \$300,000. Who is going to pay \$300,000 for that when it shows a deficit of \$25,000 per year? They might take it over for the purpose of getting a better system at a lower price.

R. A. Ross: They might extend the bonds from ten to forty years.

Mr. Clarkson: The only way they could work the thing out in a reasonable manner is to reduce the purchase price; make it a long term at a low rate of interest. I think I suggested that the rate should be 3-3½-4½-4½ and 5%; in other words running it up to put a better face on it.

R. A. Ross: In the dead certainty that the 5% would never be paid!

Mr. Clarkson: No, in the dead certainty that it would.

R. A. Ross: It would not be as bad to issue the forty-year bonds as to pay the \$12,000,000 (?) less the _____ to the Seymour.

Mr. Clarkson: The original proposition was forty-year four-per-cent bonds for \$8,350,000 and since then they have about \$4,000,000 in there that has cost 5½%. You could pretty well clean yourself out of the purchase price if you had the bonds extended thirty years at four-per-cent; the Government would lose 1½% on that basis, allowing the system to pay the actual rate of money for the fresh advances. When

The original proposition was forty-year four-per-cent bond for \$6,350,000 and since then they have a debt \$4,000,000 in there that has cost 6 1/2%. For social justice well alone yourself out of the purchase price if you had the bonds extended thirty years at four-per-cent; the Government would lose 1 1/2 on that basis, allowing the system to pay the actual rate of money for the French advances. When

it was taken over they were not in any position to determine what each unit was actually losing or making. They were faced by these franchises; there was a limitation to what they might charge and they were faced with these losing contracts. A lot of water has gone under the bridge and it may be the time is approaching when something can be done.

--- Have you worked out a scheme by which they might have turned it over to the municipalities without the Government losing anything ?

Mr. Clarkson: If you take the units that the municipalities do not want, time might be given to them to see what they could fairly get for them and then you could fix their real value and allocate the deficits in respect to them and when you have that, put it on a purely Hydro (municipal ?) basis and extend the sinking funds from five to ten years. (It is of little importance whether the sinking fund is paid in five or ten years.) I think it could be worked out in this way.

Mr. Harris: Do you think the Hydro should take over the public utilities ?

Mr. Clarkson: No, I mean to turn every local utility over to its municipality and let it manage it and let the Hydro keep the generating and transmission end of that system. The Government would compensate by charging a reduced rate of interest over a period.

Mr. Harris: Would it not be better for the Government to take what loss they must and get the thing turned over ?

Mr. Clarkson: Then you would ask the Government to take the dual loss - the loss on interest and the loss on purchase ?

Mr. Harris: If they got it in real value, I think they would be willing that the Government should charge them what they had to pay.

Mr. Clarkson: I would rather see a fixed rate of interest. I think sometime we are going to get into a mess over this interest.

R. A. Ross: How can the Hydro be expected to make rates over a period of years at a fixed rate, when the interest rate changes and interest is the main portion of their cost.

Mr. Harris: We have to get away from this idea of power costs. Look at Eipigon and Chippewa !

Mr. Clarkson: You have taken the two extremes. _____ there is no question about _____ the first year's operations. You are going to propose some adjustment of it which otherwise would have fallen to me at the end of

have fallen to me at the end of this year. I would make it as elastic and flexible as possible, subject to the agreement of the council, up there, as to what should be done each year.

Mr. Harris: On the basis that it will all be paid back eventually ?

Mr. Clarkson: At the end of each year a fair rate for power is charged so that the amount that is carried over is the minimum of what is necessary. What you have to guard against is where the municipalities could afford to pay \$15-\$16 or even \$17 per h.p. that they are not charged \$14. and that the deficit carried is not more than it should be. Let the amount be set by Order-in-Council.

Mr. Harris: If they have to pay \$30. what are you going to do ?

Chairman: You are changing the whole basis.

Mr. Clarkson: That makes no difference. You are going to change it to whatever is best for the municipalities. Is there any reason why you should put a province-owned commission at a disadvantage which a private commission would not have to meet ? If a private corporation were doing this they would carry forward some part of the deficit for years and years. In three out of five power developments entered into by private corporations the cost wildly exceeds the original estimate; they deal with unknown factors. You have a situation there where the Hydro makes representations as to the cost of the canal and what should be done. You know what the property has cost; you know whether the representations were made honestly or not. That is something apart from me.

B.A. Ross: Why do the Hydro municipalities go to the Government at all for money? They go because the Government can borrow money cheaper than the banks. If they went to the banks they would have to pay more for it, but they went to the Government and the Government said "We will be your bankers."

J. A. Ross: I cannot understand why.

Mr. Clarkson: In its operation of the Central Ontario System, why did not the Hydro, for the Government, charge such a price for power as would have given a sinking fund ?

J. A. Ross: But in your estimation it should have been done?

Mr. Clarkson: I said to the Province two or three times, there is no honor in your running this system. You foot the deficits but you cannot take the profits. I said "Put it on a Hydro-municipal basis. Let these people buy it from you. Until it is on a Hydro-municipal

have failed to me at the end of this year. I would make it as flexible and flexible as possible, subject to the agreement of the council, up there, as to what should be done each year.

On the basis that it will all be paid back eventually

at the end of each year a fair rate for power is charged so that the amount that is carried over is the minimum of what is necessary. That you have to guard against is where the municipalities could allow to pay \$15-20 or even \$17 per h.p. That they are not charged \$14, and that the deficit carried is not more than it should be. But the amount be not by order-in-council.

It they have to pay \$20, what are you going to do?

You are thinking the whole matter.

That makes no difference. You are going to charge it as whatever is best for the municipalities. Is there any reason why you should put a provision-wards commission at a disadvantage which a private commission would not have to meet? It a private corporation were doing this they would carry forward some part of the deficit for years and years. In three out of five power developments entered into by private corporations the cost wildly exceeds the original estimate; they deal with unknown factors. You have a situation where the Hydro makes representation as to the cost of the canal and what should be done. You know that the property has cost; you know what the representations were made honestly or not. That is something against them.

Why do the Hydro municipalities go to the Government at all for money? They go because the Government can borrow money cheaper than the banks. If they went to the banks they would have to pay more for it, but they went to the Government and the Government said "We will be your bankers."

I cannot understand why.

In the operation of the General Ontario system, why did not the Hydro, for the Government, charge such a price for power as would have given a sinking fund?

But in your estimation it should have been done?

I said in the Province two or three times, there is no money in your running this system. You foot the bill but you cannot take the profits. I said that it is on a Hydro-municipal basis. But these people say it is not. Until it is on a Hydro-municipal

basis..... It is most extraordinary for the Government to own this system and sell power to some little municipality, collecting the price for power, plus sinking fund. I think you would get into chaos. You have to do one thing or the other - leave it in the hands of the Government or make it Hydro-municipal

Chairman: If there was a public body regulating the price of power...

Mr. Clarkson: When the Seymour system owned this undertaking, it had a franchise in each municipality, limiting the amount they could charge for power. Now the Government buys this undertaking, subject to this franchise. These conditions have been cleaning themselves up a bit over the last two or three years and I have suggested to the Province that they get them on a Hydro-municipal basis.

Mr. Harris: Why should the municipalities do that ?

Mr. Clarkson: The only answer I know of is that I have heard they WANT to do it.

Mr. Wegenast: You have no sinking funds but you have very substantial renewal funds in the Central Ontario System - quite substantial as compared with other systems.

Mr. Clarkson: We have substantial renewal funds.

Mr. Wegenast: Does it make any difference what you call them ?

Mr. Clarkson: The renewal funds have to stay there if the system is to be maintained. In 1917, after setting up a renewal fund of about \$260,000, for renewals and contingencies - 2½% for power and 2½% for distribution systems and, after paying interest to the Government, there was a deficit of \$24,000. That can be reversed to this - after paying interest to the Government, there was about \$235,000 left over, which was set aside to make renewals; that was in the period from May 1916 to October 1917. In November, 1918, after putting aside about \$160,000 for renewals; \$7,000 for sinking funds in connection with pulp mill, etc., paying Government interest, there was a profit made of about \$16,500. In that year the pulp mill lost \$14,800.

Chairman: Why did they not sell the pulp mill when they had an offer ?

Mr. Clarkson: I do not know. I advised them to sell it. They had an offer of \$600,000. In 1919 they set aside \$193,000 for renewals; \$6,500 for sinking fund; \$4,000 for contingencies and \$183,600 In 1920, for renewals \$207,000. The operating deficit at the end of 1920 had become reduced by about \$34,000.

It is most extraordinary for the Government to own this system and still power to some little municipality, collecting the price for power, plus sinking fund. I think you would get into some other have to look one thing or the other - have it in the hands of the Government or make it hydro-municipal.

Chairman: It seems to me a public body regulating the price of power...

Mr. Clarkson: When the system owned this waterworks, it had a franchise in each municipality, limiting the amount they could charge for power. Now the Government says this waterworks, subject to this franchise. These conditions have been coming themselves up a bit over the last two or three years and I have suggested to the Province that they get them on a hydro-municipal basis.

Mr. Harris: Why should the municipalities do that?

Mr. Clarkson: The only answer I know of is that I have heard they have to do it.

Mr. Wegermatt: You have no sinking funds but you have very substantial renewal funds in the Central Ontario System - quite substantial as compared with other systems.

Mr. Clarkson: We have substantial renewal funds.

Mr. Wegermatt: Does it make any difference what you call them?

Mr. Clarkson: The renewal funds have to stay there if the system is maintained. In 1917, after putting up a renewal fund of about \$250,000, for renewals and contingencies - \$250,000 for power and \$250,000 for distribution systems and other paying interest to the Government, there was a deficit of \$250,000. That can be reversed in this - after paying interest to the Government, there was about \$250,000 left over, which was not added to make renewal; that was in the period from May 1915 to May 1917. In November, 1915, after putting aside about \$100,000 for renewals, \$7,000 for sinking funds in connection with pulp mill, etc., paying Government interest, there was a profit made of about \$15,000. In that year the pulp mill cost \$24,000.

Chairman: Why did they not sell the pulp mill when they had an offer?

Mr. Clarkson: I do not know. I advised them to sell it. They had an offer of \$200,000. In 1915 they got about \$125,000 for renewals; \$5,000 for sinking fund; \$5,000 for contingencies and \$125,000. The operating deficit in 1915, for renewals \$207,000. The operating deficit at the end of 1920 had become reduced by about \$24,000.

Chairman: Have there been a number of cases where contracts have been made by the Seymour people at low prices, where they have run out and renewals made at higher prices? Were these fixed contracts covering a long period of years?

Mr. Clarkson: If you want it, we can give you a statement of the losses and profits. One year they would lose a lot and another year they would make a lot.

Mr. Haney: Their renewal fund amounts to about \$1,000,000.

Chairman: How is that renewal fund invested?

Mr. Guilfoyle: It is largely made up of working assets.

Mr. Haney: Is it working assets or has it been reinvested.

Mr. Clarkson: \$32,500 of debentures...

--- What has become of the other \$5,000?

Mr. Clarkson: There is \$4,200 of _____
\$169,000 of operating deficits.....

Mr. Haney: \$700,000 is liquid.

Mr. Clarkson: If you take the deficits off the reserve for renewals you would have about \$875,000 reserve for renewals and against that _____ for inventories. The point you are getting at is this, as to the investment and renewal fund. In this case it is not in as good a position as in the Niagara system. These assets have not the same quality as the others have. If we were to put in force the suggestion that we made to the Commission there should be \$300,000 more _____ in here as compared to the renewals. Then, of course, you have the question that this is owned by the Government.

R. A. Ross: Do you take in your renewals the shrinkage of pulp wood?

Mr. Clarkson: No, we wrote that off in the value of the pulp wood. In other words, we put it on a commercial basis.

Mr. Harris: Do you audit the accounts of the pulp wood company?

Mr. Clarkson: Absolutely. I think you will find they are on a conservative basis - \$10 a cord or something like that.

Mr. Harris: They made money down there last year. That is remarkable is it not?

Mr. Clarkson: Not last year, in 1920. Last year they lost \$17,000 and you see we wrote off \$42,000 in the decline in values of the pulp wood.

Chairman:

Have there been a number of cases where contracts have been made by the Government people at low prices, where they have run out and renewals made at higher prices? Were these fixed contracts covering a long period of years?

Mr. Clark:

If you want it, we can give you a statement of the losses and profits. One year they would lose a lot and another year they would make a lot.

Mr. Bailey:

Their renewal fund amounts to about \$1,000,000.

Chairman:

How is that renewal fund invested?

Mr. Galt:

It is largely made up of working assets.

Mr. Bailey:

Is its working assets or has it been reinvested?

Mr. Clark:

\$32,500 of debentures...

What has become of the other \$2,000?

Mr. Clark:

There is \$4,500 of \$100,000 of operating deficits....

Mr. Bailey:

\$700,000 is liquid.

Mr. Clark:

If you take the deficits off the reserve for renewals you would have about \$375,000 reserve for renewals and against that... for investment. The point you are getting at is this, as to the investment and renewal fund. In this case it is not in as good a position as in the Niagara system. These assets have not the same quality as the others have. If we were to put in force the suggestion that we made to the Commission there should be \$300,000 more... in here as compared to the renewals. Thus, of course, you have the question that this is owned by the Government.

Mr. A. Rosen:

Do you take in your renewals the shrinkage of pulp wood?

Mr. Clark:

No, we wrote that off in the value of the pulp wood. In other words, we put it on a commercial basis.

Mr. Nathan:

Do you credit the shrinkage of the pulp wood company?

Mr. Clark:

Absolutely. I think you will find they are on a conservative basis - 610 a cord or something like that.

Mr. Nathan:

They made money down there last year. That is remarkable, is it not?

Mr. Clark:

Not last year, in 1920. Last year they lost \$17,000 and you see we wrote off \$22,000 in the decline in value of the pulp wood.

Mr. Harris: Your limit goes down \$10,000.

--- In reality is it not a shrinkage of capital value ?

Mr. Clarkson: No, any shrinkage you have on the capital is an added cost of operation.

You have 1000 cords costing you \$5,000. You take them off and charge \$50,000 into that pulpwood, then you add to it your cutting costs. You have wiped off your capital cost but it is in your pulpwood.

R. A. Ross: When your limit is all cut down where is your capital account ?

Mr. Clarkson: Wiped right out - like a mine.

You have a provision for sinking fund which really covers your depletion.

R. A. Ross: Charge it to operating and credit it to capital.

Mr. Harris: What is the actual amount set up against the pulp mill and limits?

Mr. Clarkson: It is \$509,000 on both - \$121,000 and \$387,000.

R.A. Ross: I think it was separate. It was the first thing that was taken over by S_____. The dam furnished power for it and they also sold to Campbellford. It was the start of the whole thing.

Mr. Guilfoyle: That dam was made obsolete by Ranney's Falls.

Mr. Clarkson: \$122,000 profit in 1920.

Chairman: That really wiped off the deficit.

Mr. Clarkson: If my recollection is correct, in the beginning of the year, the pulp business was active and, towards the end of the year, it began to slide off.

Chairman: A man came to me with a claim because the Hydro refused to sell to him (Mr. Meigs of New York) but he never got anything.

Mr. Clarkson: In 1920 J. J. Carriack got \$10,000 for relinquishing his claim.

Chairman: Did you advise them to sell.

Mr. Clarkson: It was my opinion that it was best.

Chairman: I do not suppose they would get that price now.

Mr. Clarkson: It all depends upon this timber limit; I am not

Yours truly, J. J. Garrison

Mr. Garrison

In reality it is not a question of capital value.

No, my dear friend, you have on the capital in an added cost of operation.

Mr. Garrison

You have 1000 acres costing you \$5,000. You take them off and charge \$50,000 into that pigwood, then you add to it your existing costs. You have wiped off your capital cost but it is in your pigwood.

When your limit is all out down where is your capital account?

Mr. Garrison

Wiped right out - like a mine.

Mr. Garrison

You have a provision for sinking fund which really covers your depletion.

Unsurprisingly so operating and credit is to capital.

Mr. Garrison

What is the actual amount set up against the pig will and limit?

Mr. Garrison

It is \$500,000 on both - \$150,000 and \$350,000.

Mr. Garrison

I think it was separate. It was the three things that was taken over by the dam furnished power for it and they also sold to Campbell. It was the sum of the whole thing.

Mr. Garrison

That was made obsolete by the dam's failure.

Mr. Garrison

\$150,000 profit in 1920.

Mr. Garrison

That really wiped off the deficit.

Chairman

Is my recollection is correct, in the beginning of the year, the pig business was active and, towards the end of the year, it began to slide off.

Mr. Garrison

A man came to me with a claim because the Myers refused to sell to him (Mr. Nelson or New York) but he never got anything.

Chairman

In 1920 J. J. Garrison got \$10,000 for relinquishing his claim.

Mr. Garrison

Did you advise them to sell?

Chairman

It was my opinion that it was best.

Mr. Garrison

I do not suppose they would get that price now.

Chairman

It all depends upon the timber limit. I am not

Mr. Garrison

prepared to say. I did not consider that a pulp limit was properly part of a power system. The profit in the pulp mill for 1920 was \$200,000 after we had written off _____ and \$10,000 paid to Carrick for the relinquishment of his pulp claims.

--- That was the wood that was out.

Mr. Clarkson: Depreciation in the Fall. Everything fell and when we were dealing with that we cut the price.

J. A. Ross: What would be the percentage of power contracts that were taken over at the set rate at which the Government bought the Central Ontario System, to those that were free upon which they could charge any price ?

Mr. Guilfoyle: I could give you that on today's basis but I do not think I could give you 1916. The Hydro could give it to you.

Mr. Haney: It would probably be 50% of the load.

Mr. Clarkson: That is the course of operation of that system and, if you want the details from 1917 or 1918 of the losses and profits for each limit, we can give them to you.

R.A. Ross: It seems to us that is the root of the whole matter for us. You cannot deal with it without that.

Chairman: Have you any idea how it is running this year, Mr. Clarkson? Is it going ahead or behind ?

Mr. Harris: This last development at Ranney's Falls, is that being financed by the Government or does it become part of the Central Ontario System, so that the Government is finding the money for the development ?

Mr. Clarkson: Yes, the Government advanced that money just the same as to the Hydro. The only thing is that the Government owns this system and it is just like an additional capital of its own.

XXXXXXXXXX:

Mr. Guilfoyle: The other power users, as far as we can judge, bought 10,000 h.p. as against 30,000 on the system now.

Mr. Harris: Ranney's Falls is the only development since the acquirement of the property ?

Mr. Guilfoyle: No Healey's Falls.

prepared to say. I did not consider that a pulp
limb was properly part of a power system. The
profit in the pulp mill for 1930 was \$200,000 after
we had written off _____ and \$10,000 paid to
Garner for the relinquishment of his pulp claims.

That was the wood that was cut.

Depreciation in the mill. Everything fell and
when we were dealing with that we cut the price.

That would be the percentage of power earnings
that were taken over at the rate at which the
Government bought the Central Ontario System, so
these that were there upon which they could charge
any price?

Mr. Gulliver: I could give you that on today's basis but I do
not think I could give you 1918. The Hydro could
give it to you.

It would probably be 60% of the load.

That is the source of operation of that system and,
if you want the details from 1917 or 1918 or the
losses and profits for each limit, we can give them
to you.

It seems to me that is the root of the whole matter
for us. You cannot deal with it without that.

Have you any idea how it is running this year, Mr.
Clarkson? Is it going ahead or behind?

This last development at Ramsey's Falls, is that
being financed by the Government or does it become
part of the Central Ontario System, so that the
Government is finding the money for the development?

Yes, the Government advanced that money last the
same as to the Hydro. The only thing is that the
Government owns this system and it is just like an
additional capital of its own.

Mr. Gulliver: The other power source, as far as we can judge, brought
10,000 h.p. as against 20,000 on the system now.

Mr. Harris: Ramsey's Falls is the only development since the
acquisition of the property?

Mr. Gulliver: No Ramsey's Falls.

Mr. Harris: That \$4,000,000 that has been advanced and supplied by the Government, since the acquirement by the Government, how was that expended - besides Ranney's Falls and Henley's Falls ?

Mr. Clarkson: That loop that you spoke of. \$898,000 spent in 1921; power development \$557,000 of which \$565,000 was Ranney's Falls. \$189,000 of local utilities; \$42,000 on the Oshawa Electric; \$12,000 on the Oshawa Gas; \$48,000 on the Peterboro Gas; \$13,000 Belleville Electric; \$17,000 Cobourg Gas.

Chairman: Does the Government render a statement each year to the Hydro, showing the amount payable for interest on that System ?

Mr. Clarkson: No, I do not think so. At the end of the year, the Hydro sends up a statement for the computation of interest and to check and if there is any difference, we have to go in and straighten it out.

Mr. Guilfoyle: Up to 1921 the Government did send in a statement but not for 1922 the Central Ontario System alone and the Hydro checked that ~~xxxxxx~~ to a point where the Province agreed with the Commission.

Chairman: Did you have to be called in on some points where they disagreed ?

Mr. Guilfoyle: I would not call it disagreement, just an adjustment of rates.

Chairman: In 1921 the Commission made up the statement and sent it to the Government. How did that change come about ?

Mr. Guilfoyle: Oh, I think it was just because the Government was late and the Commission made it up.

Mr. Haney: They got together and adjusted it among themselves. I am thinking of the Central Ontario System. In Nipigon was not that a separate statement ?

Mr. Guilfoyle: No, they treated it together because the advances were in round sums at fluctuating rates. An advance of \$1,000,000 might be from five or six appropriations.

Chairman: So what you say about the Government having rendered the Hydro statements year after year applies to the whole system ?

Mr. Guilfoyle: Yes.

Mr. Clarkson: Mr. Guilfoyle said something the other day about checking some of these accounts in the Treasury Department.

Mr. Harter:

That \$4,000,000 that has been advanced and supplied by the Government, since the agreement by the Government, and was that expended - besides Harney's Bill and Harney's Bill?

Mr. Glickson:

That 1900 that was \$4,000,000 of \$4,000,000 of which \$250,000 was Harney's Bill. \$150,000 of local millage; \$250,000 on the Harney Bill; \$11,000 on the Harney Bill; \$40,000 on the Harney Bill; \$11,000 on the Harney Bill; \$17,000 on the Harney Bill.

Chairman:

Does the Government want a statement each year to the House, showing the amount payable for interest on that system?

Mr. Glickson:

No, I do not think so. At the end of the year, the Hydro sends up a statement for the company of interest and to check and if there is any difference, we have to go in and ascertain it.

Mr. Glickson:

Up to 1901 the Government did send in a statement but not for the Central Electric System alone and the Hydro checked that statement to a point where the Province agreed with the Commission.

Chairman:

Did you have to be called in on some points where they disagreed?

Mr. Glickson:

I would not call it disagreement, just an adjustment of rates.

Chairman:

In 1901 the Commission made up the statement and sent it to the Government. How did that change come about?

Mr. Glickson:

Oh, I think it was just because the Government was late and the Commission made it up.

Mr. Harter:

They got together and adjusted it among themselves. I am thinking of the Central Electric System. In 1901 was not that a separate agreement?

Mr. Glickson:

No, they created it together because the charges were in round sum of interesting rates. An advance of \$1,000,000 might be from five or six appropriations.

Chairman:

Do you say about the Government having recorded the Hydro statement year after year again to the Hydro system?

Mr. Glickson:

Yes.

Mr. Glickson:

Mr. Glickson said something the other day about checking some of these accounts in the Treasury Department.

I did not know whether you meant that for instructions or just a suggestion. If I were the Government, I would not let anyone go in and check the accounts.

Chairman: I suggested to Mr. Guilfoyle that you make a suggestion as to what changes you thought should be made so that the accounts should be more ear-marked in so far as the Hydro is concerned.

Mr. Clarkson: That could very well be done, Mr. Gregory. The advances for the Central Ontario System and Nipigon for instance - advances of two different characters.

Chairman: If you could give us a memo showing what changes you thought should be made in the system.

Mr. Clarkson: There is one thing I am really worried about - this question of interest. In so far as the rate the Government should charge and the possibility of its varying periodically and the effect of interest on the sinking fund question. Suppose in 1930 \$250,000 was transferred in bonds by the Hydro to the Government for sinking funds on the Niagara System; you will have the City of Toronto having an interest of \$100,000 and twenty other municipalities with their interests. That money is invested to pay say 6½% and the excess over 4½% is credited back to every one of those municipalities in return of their next sinking funds. You run along and you come to the end of a ten-year bond and you have to re-invest it, some in 5½% bonds and some in 4½%; we will get into a calculation that will be a Dutch puzzle. We have been approaching it gradually, so that ten years from now the municipalities will not go to the Government and say, "You only allowed us 4½% when the money was worth 6½%." We must get it on a commercial basis where there will be some simplicity. In Niagara, for instance, they have advanced money at say 6.168% but when the rate comes down and five years from now you will come to the conclusion that it should have been 5½%. I think you should get away from the whole of that and get down to some stable basis.

Chairman: Someone would have to take the risk.

~~Mr. Clarkson:~~ If you fix a rate, it might be more, or less, than the Government would have to pay.

R. A. Ross: Why should the Hydro not be put on the basis of an insurance company, where it could buy trustee bonds?

Mr. Clarkson: No, I do not like that with a Government undertaking. I would hold them down to Provincial and Dominion bonds.

Chairman: Would you let the Hydro make the investment themselves.

I did not know whether you meant that for investigations
or just a suggestion. If I were the Government, I
would not let anyone go in and check the accounts.

I suggested to Mr. Williams that you make a suggestion
as to what changes you thought should be made so that
the accounts should be kept out-of-pocket in as far as the
Hydro is concerned.

That could very well be done, Mr. Williams. The
accounts for the Central Electric System and Hydro
for instance - accounts of the different companies.

If you could give me a memo showing what changes
you thought should be made in the system.

There is one thing I am really worried about - this
question of interest. In no way can the rate the
Government should charge and the possibility of the
company paying interest and the effect of interest
on the sinking fund question. Suppose in 1930
\$250,000 was transferred in funds of the Hydro to
the Government for sinking funds on the Hydro system
you will have the City of Toronto having an interest
of \$100,000 and twenty years amortization with their
interest. That money is invested to pay say 5%
and the excess over 5% is credited back to every one
of those municipalities in payment of their debt including
Toronto. You run along and you come to the end of a
ten-year bond and you have to re-invest it, some in
5% bonds and some in 4% we will get into a difficult
that will be a tough question. We have been approaching
it gradually, so that ten years from now the municipalities
will not go to the Government and say, "You only
allowed us 4% when the money was worth 5%." So what
get it as a conventional basis where there will be some
simplicity. In Niagara, for instance, they have
advanced money at say 6.125% but when the rate came
down and five years from now you will come to the
conclusion that it should have been 5%. I think you
should get away from the whole of that and get down
to some simple basis.

Someone would have to take the risk.

If you find it too, it might be more, or less, than the
Government would have to pay.

Why should the Hydro not be put on the basis of an
insurance company, where it could buy interest bonds?

No, I do not like that with a Government undertaking.
I would hold them down to investment and business bonds.

Would you let the Hydro make the investment themselves?

Chairman:

Mr. Williams:

Chairman:

Mr. Williams:

Chairman:

Mr. Williams:

Mr. Williams:

Mr. Williams:

Chairman:

The sinking fund is made up for the Government.

R.A. Ross: The sinking fund is made up for the municipality.

Mr. Clarkson: The Government advances money to the Commission in the first place and there is no reason why the Commission, when it has money, should not invest in Government bonds so as to return it in an indirect way. What is troubling me is the method of dealing with these sinking funds in the hands of the Government so far as they affect the sinking funds in the hands of the municipalities.

Mr. Harris: Would you suggest making a fixed rate?

Mr. Clarkson: I should like to think it out more fully and then make a suggestion; I do not like this fluctuating rate of interest.

Chairman: I do not see how you can avoid it if you are going to pay back to the Government just what it pays out.

Mr. Harris: It will all come back to the Government eventually.

Chairman: If you have a fixed rate may not that be less than the Government has to pay?

Mr. Clarkson: If the Government has to borrow money at a higher rate it will lose the difference.

Mr. Harris: Some of it might come back at a higher rate.

Mr. Haney: How would a fixed rate for ten years or five years work out?

Chairman: If a rate were fixed for ten years and the rate went down the municipalities would at once object to paying more than the Government had to pay.

Mr. Clarkson: My idea is rather to reduce it to a flat rate and hold it there for five or ten years.

Mr. Haney: On account of the long term contracts, I would think ten years.

Mr. Clarkson: You can mix the two things together; the municipalities are getting the benefit.

Chairman: I do not see the complications.

Mr. Guilfoyle: On a flat rate you are also going to have that; take Chippewa for instance. The rates can be calculated to an average rate on all the bonds so that we can get an average rate and let it be settled by Order-in-Council yearly.

Mr. Clarkson: I am worried about what may happen five years from now.

The thing that is made up for the Government.

The thing that is made up for the municipalities.

Mr. Barker:

Mr. Barker:

The Government advanced money to the municipalities in

the first place and there is no reason why the Gov-

ernment should not invest in

Government bonds as an investment in an interest way.

but is providing me in the matter of dealing with these

things which is the basis of the Government on the

they affect the thing that is the basis of the municipali-

ties.

Mr. Barker:

Would you suggest making a fixed rate?

Mr. Barker:

I should like to think it was more fairly and then make a

suggestion; I do not like this interesting rate of

interest.

Chairman:

I do not see how you can hold it if you are going to pay

back to the Government that what it pays out.

Mr. Barker:

It will all come back to the Government eventually.

Chairman:

If you have a fixed rate may not that be better than the

Government has to pay?

Mr. Barker:

If the Government has to borrow money at a higher rate

it will lose the difference.

Mr. Barker:

Some of it might come back at a higher rate.

Mr. Barker:

Now would a fixed rate for ten years or five years work out

Chairman:

It is a rate which is fixed for ten years and the rate would stay

the municipalities would be able to pay the same

than the Government has to pay.

Mr. Barker:

My idea is to have a period of ten years and have it

there for five or ten years.

Mr. Barker:

On account of the long term contracts, I would think ten years

Mr. Barker: You can mix the two things together; the municipalities

and getting the benefits.

Chairman:

I do not see the complication.

Mr. Barker:

At a time when you are also going to have fixed rates

Charges for insurance. The water can be calculated to an

average rate as all the things as that we can get an average

rate and let it be controlled by Governmental policy.

Mr. Barker: I am worried about what may happen five years from now.

Mr. Guilfoyle: You mentioned our getting out the figures for the expenditures under the estimates for the Central Ontario System, Mr. Gregory. I think Price, Waterhouse & Company have dealt with that very fully.

Mr. Harris: Mr. Clarkson, when the Hydro first started - when the first group of municipalities came into it - each municipality's liability was set up, was it not?

Mr. Clarkson: A stated amount was allocated to each municipality as to what their liability was on the building of the transmission lines.

Mr. Harris: With change in the policy of the Hydro and their going into the construction of plants that will all be changed.

Mr. Clarkson: I think the proposition is absolutely alright as far as it goes at present on the transmission systems. The basis we have laid down for the proportion of capital to be shouldered in each year when you come to the generating plants you have something different. We think it should go on a horse power basis.

Mr. Harris: Could you take the entire cost of Chippawa and the entire investment in the Ontario Power Company and the Electrical Development Company.

Mr. Clarkson: Say we set up \$150,000 sinking funds per year, the municipalities will only be interested to the extent of the sinking funds paid in on any generating plant or any system.

Take the Ontario Power Company; let us assume that the sinking fund put up this year is \$150,000 and against that the Ontario Power Company will sell 50,000 h.p. to the municipalities on the Niagara system, that means that \$3.00 of sinking fund has been accumulated on the Ontario Power Company in respect of every horse power sold to the Niagara system. You will find that Toronto sold 40% of it. That means that Toronto's interest in the Ontario Power Company for that year will be 40% of that sinking fund or \$60,000.

R. A. Ross: You are not doing that now?

Mr. Clarkson: We only started that in 1921. You will notice in my report that we have done it but there is no legal authority but we have asked the Government to amend the Act to provide for it. They must do it.

R. A. Ross: It is quite clear up to now what is the property interest of the municipalities in the sinking fund, as far as step-down costs are concerned but not as regards the power plants, because you have bulked the power costs

Mr. Clarkson: But I did not think we should do that until we had this course validated; I asked for it last year. The thing is absolutely clear. You can find out the interest of every municipality, every system and every generating plant.

I would take the Ontario Power Company 1921 and put up \$150,000 sinking funds through the cost we have charged the Niagara system for power. Toronto has taken 40% of the power the Ontario Power Company sold to the Niagara System; Toronto took 40% of that 50,000 h.p. Then it means that they have contributed 40% of that \$150,000 of sinking funds and that is their interest in the plant.

Mr. Harris: They are interested in the plant to the extent of the power that is sold to the Lockport Railway - the power that is exported to the United States?

Mr. Clarkson: The owners of the Ontario Power Company are these municipalities.

Mr. Harris: You never get away from that, do you?

Mr. Clarkson: No.

If the Chippawa costs \$100,000,000 (as Mr. Harris says it is going to cost) you that and \$25,000,000 for the Electrical Development Company and \$28,000,000 for the Ontario Power. \$151,000,000 invested in generating plants; fifteen or seventeen millions in transmission lines - say \$170,000,000; there is your total capital cost. Each municipality is liable for a certain amount of that so that their liability would be increased. All that they have is the amount of sinking funds against each of their liabilities. Now

Mr. Harris: How are you going to set that up?

Mr. Clarkson: Very simply! Their interest will be represented by the amount that they put in each year for sinking funds.

R. A. Ross: I think Mr. Harris' difficulty is this. In the Ontario Power Company there is only 50,000 h.p. sold to the municipalities and 100,000, say, sold to the Lockport Railway. The liability of these people in the partnership is _____. They are only getting their sinking funds and you are only classing their ownership by the amount they have put in.

There are other sinking funds to cover the whole thing that must be paid by the Lockport and Ontario; either they pay them or they do not. If they pay them they have an additional interest and, if not, they have a liability.

But I did not think we should be that much to have
this system valid. I know for it last year.
The thing is absolutely clear. You can find out
the interest at every municipality, every system
and every generating plant.

Mr. Dickinson:

I would like to know the Ontario Power Company 1911 and
put up \$100,000,000 through the year we
have changed the Niagara system for power. Toronto
has taken 10% of the power the Ontario Power Company
paid to the Niagara system. Toronto took 20% of that
\$10,000,000. Then it means that they have contributed
40% of that \$100,000,000 of starting funds and that is
about interest in the plant.

They are interested in the plant in the extent of
the power that is sold to the Niagara Railway -
the power that is exported to the United States.

Mr. Harris:

The owners of the Ontario Power Company are these
municipalities.

Mr. Dickinson:

They never got away from that, do you?

Mr. Harris:

Yes.

Mr. Dickinson:

If the Niagara costs \$100,000,000, as Mr. Harris
says it is going to cost, you know and \$100,000,000
for the Niagara Development Company and \$100,000,000
for the Ontario Power. \$100,000,000 invested in
generating plant, \$100,000,000 or more in interest in
transmission lines - say \$100,000,000, there is your
total capital cost. A very small part is likely for
a certain amount of time as that their liability would
be increased. All that they have is the amount of
sinking fund against each of their liabilities. Now
how much are you going to get that up?

Mr. Harris:

Very much! Their interest will be represented by
the amount that they put in each year for sinking fund.

Mr. Dickinson:

I think Mr. Harris' difficulty is this. In the Ontario
Power Company there is only \$100,000,000 sold to the
municipalities and \$100,000,000, say, sold to the Niagara
Railway. The liability of those people in the power
ship is _____. They are only getting their sinking
fund and you only allowed their ownership by the amount
they have put in.

Mr. Harris:

There are other sinking funds to cover the whole
thing that must be paid by the Niagara and Ontario
either they pay them or they do not. If they pay them
they have an additional interest and, if not, they have
a liability.

--- It is set up on the whole load and applying the benefit of credit to the municipalities, it is based on the Niagara load.

Mr. Clarkson: It is based on the whole load but apportioned on the small portion of the Niagara System

--- That contract with the Lockport Railway, is it at a fixed price over a long term of years?

--- The Lockport contract will not provide anything like enough sinking funds from that contract.

--- If it should fall short ...

Mr. Clarkson: The Lockport provides a flat rate. They pay so much per h.p. Suppose their contract is at 10 but, as a result of all these developments, the cost goes up to 30, then the Niagara System municipalities pay so much more for this power and included in this is \$ 174,000 for sinking funds.

Chairman: Suppose the Ontario Power Company's plant is closed down or scrapped and the Electric Development plant is closed down and all the power is taken from Chippawa, how do you fix the cost?

Mr. Clarkson: Charge every cost. Interest and sinking funds on Ontario Power Company and interest and sinking funds on Electrical Development against the Chippawa as part of their operating. If you close the Ontario Power Company and the Electrical Development, Chippawa must pay.

Chairman: If you do not close it, it might have to pay more.

--- Have you ever made any estimate of the Chippawa costs under these conditions?

Mr. Clarkson: No, and I am not going to! But there is one more thing I want to say to you.

Suppose the Ontario Power operating cost is \$ and the revenue from Lockport and everywhere else, excepting the municipalities is one and one-half millions. That leaves one million to be made to pick up the revenue. We add to that the sinking funds \$174,000 which we add to the Niagara System.

--- You are not going to take the Ontario Power Company as a separate unit?

Mr. Clarkson: You will find that the interest of Toronto, paid in for its sinking funds on the Ontario Power Company. You will find that it is a different figure.

is it set up on the whole load and applying the benefit of credits in the meantime, is it based on the Niagara load.

Mr. Glavin: It is based on the whole load but apparently on the small portion of the Niagara system.

That contract with the Niagara Railway, is it at a fixed price over a long term of years?

The Niagara contract will not provide anything like enough electric power from that contract.

Is it electrically short ...

Mr. Glavin: The Niagara provides a fixed rate. They pay as much per B.H.P. as they can get. It is not, as a result of all these developments, the cost goes up to \$5, then the Niagara system would be able to pay as much more for this power and included in this is \$175,000 for electric power.

Mr. Glavin: Beyond the Ontario power company's plant is closed down or stopped and the Niagara development plant is closed down and all the power is taken from Niagara. How do you fix the cost?

Mr. Glavin: Charge every cent. Interest and sinking fund on Ontario power company and interest and sinking fund on Niagara development against the Ontario power company's plant. It is not clear to me that there is any difference between the Niagara development, Niagara power, pay.

Mr. Glavin: If you do not close it, it might have to pay more.

Give you ever made any estimate of the Niagara power plant? What about conditions?

Mr. Glavin: No, and I am not going to. But there is one more thing I want to say to you.

Suppose the Ontario power company paid in \$100,000,000 and the revenue from that and everything else, including the Niagara plant is one and one-half million. That leaves one million to be made to pay up the revenue. We add to that the sinking fund \$175,000 which we add to the Niagara system.

Mr. Glavin: The one not going to take the Ontario power company and a separate unit.

Mr. Glavin: The fact that the interest of Ontario, paid in for the sinking fund on the Ontario power company, you will find that is a different figure.

- R. A. Ross: Ten years from now there may be no Ontario Power Co.
- Mr. Clarkson: Then you can throw it over on to Chippawa.
- Why would you shut it down so that you could get the water for Chippawa then charge Chippawa for that water.
- R. A. Ross: When you take their property of which they own 50%, how do you give them an equity? They have already paid for a thing that is shut down.
- Mr. Clarkson: They have to pay for it, that is all there is, until they put enough into it to wipe out \$8,000,000 of bonds for the Ontario Power Company.
- Mr. Harris: The Ontario Power Company does not enter into it at all; it is all thrown into one pot. You have to add the cost that has gone into the three plants and take the amount of horse power that is developed there _____
- Mr. Clarkson: If the municipalities are willing to have that done, it would be more simple to bulk the whole three. They have the Ontario Power Company now; they are committed to that but, in 1921 for instance
- Mr. Haney: There was no vote on the Ontario Power Company or Electrical Development Company; there was on the Chippawa.
- Mr. Clarkson: If the arrangement was approved by the municipalities who notified the Government to that effect, the Government passed legislation.
- Mr. Haney: The Ontario Power Company and the Electrical Development Company are on different bases.
- Mr. Guilfoyle: As far as representatives can speak for municipalities I think they approved, but not by any individual vote.
- Mr. Clarkson: If you ignore the year 1921 regarding the Ontario Power and \$175,000 of sinking funds put up in that year, for the rest of the period they will all be in one boat because, irrespective of whether they get power, each municipality is getting _____
- Mr. Harris: Starting November 1st, 1922, that will take in Chippawa, Ontario Power and Electrical Development. Ontario Power Company sinking funds - \$175,000. Electrical Development Company do 125,000. Chippawa -----
You must bulk those together and that is the amount of sinking fund you must raise. You do not keep the Ontario Power Company in a basket by itself.

For power from that time to the present time the
the fact that there is no power in the
the fact that there is no power in the

Mr. A. A. Jones
Mr. Jackson

Why would you want to know as to how much the
water the Chicago River is used for the
water.

When you take the property of water from the
how do you give them an answer? They have already
paid for a right that is right now.

Mr. A. A. Jones
Mr. Jackson

They have to pay for it, that is all there is.
until they put enough into it to make the \$10,000,000
at which the Chicago River is valued.

The Chicago River Company does not want to pay it
all at all but to pay it in installments. They have to
pay the cost that has been made in the river
and then the amount of water power that is developed
there.

Mr. Jackson
Mr. Jackson

It is the responsibility and willing to have that
done. It would be more simple to talk the whole
thing. They have the Chicago River Company now
they are committed to that fact, in 1911 for instance

Mr. Jackson
Mr. Jackson

There was no vote on the Chicago River Company
or Chicago River Development Company, there was no
the Chicago River.

Mr. Jackson
Mr. Jackson

If the arrangement was approved by the municipality
who notified the Government to that effect, the
Government passed legislation.

Mr. Jackson
Mr. Jackson

The Chicago River Company and the Chicago
Development Company are on different banks.

Mr. Jackson
Mr. Jackson

As far as representation goes, for municipalities
I think they represent, but not by any individual vote.

Mr. Jackson
Mr. Jackson

It was in the year 1911, when the Chicago River
River and \$10,000,000 of sinking bonds was in the
year, for the fact of the Chicago River will all be in
one bond company, representative of the fact that they
power, such municipalities in existing.

Mr. Jackson
Mr. Jackson

During the year 1911, when the Chicago River
Chicago River and Chicago River Development Company
Chicago River Development Company - \$10,000,000
Chicago River Development Company - \$10,000,000
Chicago River Development Company - \$10,000,000

Mr. Jackson
Mr. Jackson

For the fact that the Chicago River is in the
of sinking bonds for the Chicago River. The fact is not
the Chicago River Development Company is a fact of fact.

Mr. Jackson
Mr. Jackson

Mr. Clarkson: Yes, because it is a company and the bonds are in the hands of the public.

Mr. Harris: So far as the general public is concerned it would be one fund.

J. A. Ross: That is the effect of it anyway.

Mr. Clarkson: We have the Ontario Power Company \$8,000,000 of bonds; a thirty-seven-year sinking fund Chippawa we do not know when you will start your sinking fund. I see what you mean-you could work it out that way. There is nothing on the statutes now requiring sinking funds.

Chairman: Chippawa would have to bear the whole burden if the other two were scrapped.

R. A. Ross: It would cost less to scrap them than to keep them going. It is just a question of water.

Mr. Guilfoyle: On your other point - the municipalities, by sinking funds, will have to gradually secure equity.

R. A. Ross: It will all be in the same pot eventually. For instance: here are several partners, they go in and build first one building and then another first building gets too small for them. The partners with the biggest equities say to the others, "You are not going to wipe out our first buildings" so that, in the second and third buildings these municipalities are on the same footing, as they paid for each one. Their equity must be spread over the whole thing.

Mr. Clarkson: Mr. Harris asked if you lump the whole thing in one pot. Where the Niagara System draws power from the Electrical Development or Chippawa, the proportion is the same amongst all the municipalities. Toronto takes 40% of the power of the Niagara System and the other municipalities each their proportion and it does not matter where you take it from; their proportion of the sinking fund is all based on a horse power basis. What you had in mind was pooling the whole thing and it amounts to the same thing in the end only, from a book-keeping standpoint and while the companies remain companies we must keep it separate.

Mr. Harris: Supposing the whole capital cost is \$168,000,000 when the entire thing is completed, you can take an estimated percentage to cover fixed charges and operating - I think about 12%; that would include sinking funds.

Mr. Clarkson: You have to divorce transmission lines from generating plants.

- Mr. Harris: 12% on that is \$20,180,000 per year. I do not care what rate you take but make it an amount that will include fixed charges, operating and interest (The interest is over 6%).
- Mr. Clarkson: The overhead expenses for the Chippawa canal will not be anything like the expenses for transmission lines.
- You will have your interest (6%) and your sinking funds and it may be 8%.
- R. A. Ross: The cost per h.p. would probably be one-third of that at the Ontario Power Company.
- Mr. Harris: If you scrap the Ontario Power Company.
- Mr. Clarkson: The Act does not call for sinking funds on the Chippawa Canal.
- Chairman: Mr. Clarkson will not give us an estimate, he says. Mr. Ross will give us an estimate, as an engineer.
- R. A. Ross: No, certainly not! Our engineers will give us that. We have asked the Hydro for it.
- Mr. Clarkson: I question if it will be over \$18.
- R. A. Ross: My mind is vacant on the subject.
- Mr. Clarkson: That is exactly the attitude I take.
- R. A. Ross: If I have an estimate in my mind, it is unconsciously reflected in my figures.
- Mr. Clarkson: I do not think any of you will be able to tell what the exact cost of power at Chippawa will be. You may have to carry deficits for five years or fifteen years. My own feeling was that you might defer your sinking fund for fifteen years.
- R. A. Ross: You will cut and trim till you get it right.
- Mr. Clarkson: The Toronto Power Company has made over One million dollars that way, calculated in 1920.
- Mr. Guilfoyle: Before paying the sinking fund it was Two million.
- Chairman: We have not arrived at any conclusion yet.
- Mr. Harris: What shall we examine Mr. Clarkson on next time?

The interview then terminated.

1917 on that is \$10,000 per year. I do not know what rate you have but I am sure that will include fixed charges, operating and interest. The interest is over 5%.

Mr. Harris:

The overhead expenses for the Chicago canal will not be material like the expenses for transportation.

Mr. Clark:

You will have your interest 5% and your operating cost and it may be 1%.

The cost per day would probably be something of that at the Chicago River Company.

Mr. A. Ross:

It is very easy to estimate the cost.

Mr. Harris:

The cost will be with the operating costs on the Chicago canal.

Mr. Clark:

Mr. Clark will not give an estimate, as Mr. Ross will give an estimate, as an estimate.

Chairman:

No, certainly not. Our engineers will give us that. We have asked the Board for it.

Mr. A. Ross:

I mention it is still so every day.

Mr. Clark:

My mind is vacant on the subject.

Mr. A. Ross:

There is exactly one estimate I have.

Mr. Clark:

If I have an estimate in my mind, it is undoubtedly reflected in my figure.

Mr. A. Ross:

I do not think any of you will be able to tell what the exact cost of power at Chicago will be. You may have to make estimates for five years or fifteen years. My own feeling was that you would better your thinking than for fifteen years.

Mr. Clark:

You will not and then still you say it is 10%.

Mr. A. Ross:

The Toronto Power Company has made over one million dollars that way, calculated in 1910.

Mr. Clark:

Before paying the sinking fund it was two million. We have not started on any redemption yet.

Mr. Harris:

That will be estimated by Clark on about 1910?

Mr. Harris:

